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SUMMARY

HUMAN CAPITAL AND NASCENT ENTREPRENEURSHIP – THE OPPORTUNITY COST OF A NEW JOB

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Principal Topic

It is well established in prior literature that the human capital of individuals is important for both shaping their decision to enter the entrepreneurial process and also the likelihood to succeed in starting a business. Yet the decision to become an entrepreneur is not made in isolation to other career options. Human capital not only influences an individual's prospects as an entrepreneur but also the chances of getting a better job (Gimone, Folta, Cooper, & Woo, 1997; Cassar, 2006; Shepherd et al., 2015). As such individual's face an opportunity cost of paid employment when they pursue entrepreneurial endeavors (Carnahan, Agarwal, & Campbell, 2012; Lofstrom et al., 2014). We draw on theory of consideration set and theory of opportunity costs to expand our understanding of how human capital impacts entry to entrepreneurship from an isolated vocational decision perspective to a more holistic process perspective that takes into account alternative job alternatives. We develop a two-stage model of entry to entrepreneurship

Method

Accordingly, in this study we investigate the relationship between and individual's human capital, the decision to become an entrepreneur and the nascent entrepreneurship progress, explicitly accounting for alternative job seeking. To empirically test our propositions, we construct a unique longitudinal dataset of individuals facing career transitions. Using an approach similar to the Panel Study of Entrepreneurial Dynamics (PSED), we screen the general population to identify nascent entrepreneurs (N=543). We additionally identify a sample of individuals who are looking for a new job (N=226). This allows us to compare nascent entrepreneurs to job seekers and, importantly, "dual nascent entrepreneur – job seekers" (N=140) who are simultaneously starting a business and looking for a job. We used multinomial regression analysis to test our hypotheses.

Results and Implications

As hypothesized, our empirical results show that individuals' human capital impacts the outcome of the startup effort in a two-stage process: (1) through an effect on the consideration set and (2) through an effect on entrepreneurial progress. Accordingly, we have identified an indirect human capital effect on entrepreneurial progress through its impact on the consideration set selection in addition to direct human capital effect.

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